

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
SAJ-01 OMB-01 TRSE-00 COME-00 EB-07 LAB-04 SIL-01
HEW-04 EURE-00 /089 W
----- 125835 /50 45

P R 141200Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 4061
INFO AMCONSUL BREMEN
AMCONSUL HAMBURG
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME
USMISSION EC BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY VIENNA
AMEMBASSY STOCKHOLM
AMEMBASSY LUXEMBOURG
AMEMBASSY COPENHAGEN
AMEMBASSY LISBON
AMEMBASSY OSLO
USMISSION GENEVA
AMEMBASSY MADRID

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E.O. 11652: N/A
TAGS: ELAB, GW, PINT, SOCI, EFIN
SUBJECT: COALITION AGREES ON SOCIAL SECURITY RECOVERY
PROGRAM

REF: (A) BONN 18431; (B) BONN 20857

SUMMARY: IN THE WAKE OF A WAVE OF PUBLIC PROTEST, THE
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GOVERNMENT RENOUNCED ITS INTENTION TO DELAY THE NEXT

"COST-OF-LIVING " ADJUSTMENT OF OLD AGE PENSIONS. INSTEAD, THE NEW GOVERNMENT WILL PROPOSE TO THE BUNDESTAG THAT THE REQUIRED MINIMUM RESERVES OF THE OLD AGE INSURANCE AGENCIES BE REDUCED FROM THE EQUIVALENT OF THREE-MONTHS' EXPENDITURES TO ONLY ONE MONTH AND ALL FUTURE COL INCREASES, BEGINNING IN 1979, WILL BE TIED TO NET RATHER THAN GROSS EARNINGS. CONTRIBUTIONS FROM WORKERS TO HEALTH INSURANCE FUNDS WILL BE REQUIRED TO MAKE UP FOR A DECREASE IN TRANSFERS FROM THE PENSION FUND FOR "FREE MEDICAL SERVICES" PROVIDED PENSIONERS. IN SPITE OF THE GOVERNMENT CONCESSIONS, HOWEVER, INITIAL REACTION IS STILL UNFAVORABLE AND THE DIFFICULTIES OF THE PENSION FUNDS HAVE BECOME MUCH MORE VISIBLE, MAKING THEM AN EVEN HOTTER POLITICAL ISSUE. END SUMMARY.

1. WHEN NEWS WAS LEAKED ON DECEMBER 8 THAT THE SPD/FDP COALITION HAD AGREED TO THE RECOMMENDATION OF THE SOCIAL INSURANCE ADVISORY COUNCIL TO POSTPONE THE SCHEDULED COST OF LIVING INCREASE (DUE JULY 1, 1977) FOR 6 MONTHS IN LIGHT OF SERIOUS FINANCIAL DIFFICULTIES WITHIN THE PENSION FUNDS (REF A), PUBLIC OUTCRY RESULTED. THE NEXT DAY, THE SCHMIDT GOVERNMENT RENOUNCED ITS INTENT TO SEEK ANY DELAY IN COL INCREASES THIS COMING YEAR (REF B).

2. ON DECEMBER 10, SPD AND FDP ANNOUNCED THEIR AGREEMENT ON THE FOLLOWING 12-POINT COMPROMISE PROPOSED PROGRAM OF ACTION TO INSURE THE LONGRANGE FINANCIAL VIABILITY OF THE OLD AGE INSURANCE SYSTEM MANY PARTS OF WHICH REQUIRE BUNDESTAG AND BUNDESRAT APPROVAL:

(A) THE FORMULA FOR THE FIRST TIME COMPUTATION OF OLD AGE PENSIONS WHERE GROSS EARNINGS OF ACTIVE WORKERS PLAY A DECISIVE ROLE WILL BE UNCHANGED. TAX DEDUCTIONS FOR OLD AGE INSURANCE WILL NOT BE INCREASED. THERE WILL BE NO PENSIONERS' SHARE FOR THE PENSIONERS' "MEDICARE PROGRAM" AS PROPOSED BY SOME.

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(B) EFFECTIVE JULY 1, 1977, THE REIMBURSEMENT BY THE OLD AGE INSURANCE AGENCIES TO THE HEALTH INSURANCE FUNDS FOR "FREE MEDICAL SERVICES" PROVIDED PENSIONERS WILL BE REDUCED FROM 17 TO 11 PERCENT OF THE TOTAL PENSION EXPENDITURES.

(C) THE REGULAR ANNUAL "COST-OF-LIVING ADJUSTMENT" WILL BE IMPLEMENTED ON JULY 1, 1977

AS SCHEDULED, AMOUNTING TO 9.9 PERCENT.

(D) THE NEXT REGULAR "COST-OF-LIVING ADJUSTMENT"
WILL BE DUE ON JANUARY 1, 1979, AND CONTINUED FROM THEN
ON IN ANNUAL INTERVALS.

(E) THE REQUIRED MINIMUM RESERVES OF THE OLD AGE IN-
SURANCE AGENCIES WILL BE REDUCED FROM AN AMOUNT
EQUALING PAYMENT OF PENSIONS FOR A THREE-MONTH PERIOD

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TO A ONE-MONTH PERIOD.

(F) CHILD ALLOWANCES GRANTED PENSIONERS FOR ELIGIBLE
DEPENDENT CHILDREN WILL BE FROZEN AT THE PRESENT LEVEL.

(G) REGULATIONS ON REHABILITATION AND THE PAYMENT OF
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PENSIONS TO ELIGIBLE PERSONS HAVING THEIR RESIDENCE
OUTSIDE THE FRG WILL BE AMENDED.

(H) NO OTHER MEASURES REQUIRING AMENDMENT OF CURRENT
LEGISLATION ARE INTENDED.

(I) A REMAINING DEFICIT IN THE OLD AGE INSURANCE
SYSTEM COVERING THE TIME UNTIL 1980 WILL BE MET AS
FOLLOWS: EFFECTIVE JANUARY 1, 1979, REGULAR "COST-OF-
LIVING ADJUSTMENTS" WILL NOT LONGER BE BASED ON GROSS
EARNINGS BUT WILL BE ADJUSTED AT LEAST
IN LINE WITH THE INCREASE IN NET EARNINGS OF ACTIVE
WORKERS.

(K) THE INCOME CEILING FOR THE ASSESSMENT OF CONTRIBU-
TIONS IN HEALTH INSURANCE WILL BE RAISED TO THE SAME
LEVEL AS APPLIES TO THE OLD AGE INSURANCE SYSTEM.
(THIS MEANS THAT IN 1977, THE CUTOFF WILL BE RAISED
FROM A MONTHLY INCOME OF DM 2,550 TO DM 3,400,
RESULTING IN AN INCREASE IN CONTRIBUTIONS BETWEEN DM 5
AND OVER DM 100 PER MONTH FOR INSURED PERSONS INVOLVED,
SHARED BETWEEN EMPLOYER AND EMPLOYEE.)

(L) THE REIMBURSEMENT BY THE OLD AGE INSURANCE AGEN-
CIES TO THE VARIOUS OLD AGE INSURANCE FUNDS FOR "FREE
MEDICAL SERVICES" PROVIDED PENSIONERS WILL BE ACCOM-
PLISHED IN ACCORDANCE WITH REGULATIONS IN PENDING
LEGISLATION.

(M) FURTHERMORE, THE COALITION HAS AGREED ON A SERIES
OF MEASURES TO REDUCE HEALTH AND MEDICAL COSTS, PAR-
TICULARS OF WHICH WILL BE ANNOUNCED IN THE GOVERNMENT
DECLARATION.

3. PUBLIC REACTION TO THE COMPROMISE PROPOSAL HAS NOT
BEEN VERY FAVORABLE. OBJECTIONS FROM CDU AND CSU
SPOKESMEN, EMPLOYEES, UNIONS AND SOCIAL SECURITY

AGENCIES THEMSELVES HAVE FOCUSED SPECIFICALLY ON SECTION E, WHICH CALLS FOR REDUCTION IN THE LEGAL RESERVES FOR THE FUNDS. CDU VICE CHAIRMAN AND FORMER LABOR MINISTER, HANS KATZER, VOICED THE OBJECTIONS OF LIMITED OFFICIAL USE

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MANY WITH HIS ARGUMENT THAT REDUCING THE LEGAL RESERVES WOULD MAKE THE OLD AGE INSURANCE PENSION SYSTEM DEPENDENT ON FINANCIAL SUBSIDIES FROM THE FEDERAL GOVERNMENT WHICH IS ALREADY PLAGUED WITH "FINANCIAL TURBULENCE." OTHERS CLAIM ANY GOVERNMENT SUBSIDY UNDER PRESENT CONDITIONS WOULD BE CLEARLY UNCONSTITUTIONAL.

4. COMMENT: THE SIGNIFICANT SECTIONS OF THE ANNOUNCED PROGRAM ARE C,D, AND E. THE SLEEPER IS SECTION D WHICH WOULD HALT ANY FURTHER COL INCREASES UNTIL 1979. THIS IS SURE TO RAISE A HUE AND CRY LATER. NEVERTHELESS, THE NEWLY RECONSTITUTED SPD/FDP COALITION HAS INVESTED CONSIDERABLE AUTHORITY AND PRESTIGE IN THE ISSUE OF PENSIONS AND PENSION REFORM AND HAS ALREADY BEEN FORCED TO BACK DOWN ONCE IN RESTORING THE COL INCREASE FOR 1977. THE CONCESSIONS HAVE REDUCED THE COALITION'S MANEUVERING ROOM IN DEALING WITH THE CDU AND CSU OPPOSITION, SINCE KEY POINTS IN ANY FINANCIAL RECOVERY PROGRAM FOR THE PENSION FUNDS MUST PASS THROUGH THE BUNDESTAG -- WHERE THE COALITION'S MAJORITY IS NARROW -- AND THE BUNDESRAT, WHERE CONSERVATIVES HOLD SWAY. A FINAL SETTLEMENT IS, THEREFORE, NOT YET IN SIGHT.
STOESSEL

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